

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|----------------------------|---|-----------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Delta Solid Waste Management Authority | County Delta |
| Fiscal Year End 12/31/2005 | Opinion Date 05/01/2006 | Date Audit Report Submitted to State 06/26/2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

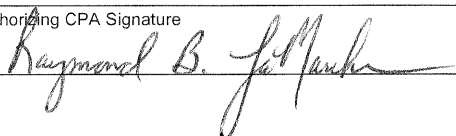
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|---------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Anderson, Tackman & Co., PLC | | Telephone Number 906-786-3111 | |
| Street Address 901 Ludington Street | | City Escanaba | State MI |
| | | Zip 49829 | |
| Authorizing CPA Signature  | Printed Name Raymond B. LaMarche | | License Number A264050 |

DELTA SOLID WASTE MANAGEMENT AUTHORITY

FINANCIAL STATEMENTS

December 31, 2005

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Delta Solid Waste Management Authority

We have audited the accompanying financial statements of the Delta Solid Waste Management Authority as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delta Solid Waste Management Authority, as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Anderson, Tackman & Company P.C.
Certified Public Accountants

May 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Delta Solid Waste Management Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

Business-Type Activities – The Delta Solid Waste Management Authority was incorporated in 1984 for the purpose of providing landfill services to the citizens and local units of government in Delta County. In 1993 the Authority started recycling operations and in 1997 began the Household Hazardous Waste collection program.

- **Net Assets** – The net assets of the Authority increased \$283,845 during the fiscal year due to operating profits of \$414,598 less non-operating revenues and expenses of \$130,753.
- **Operating Income** - The Authority generated \$283,845 in net income for the fiscal year compared to an increase of \$862,135 for 2004.
 - The Authority had operating revenues of \$2,060,648, composed of charges to local units of government (30%), private contractors (31%), corporate accounts (20%), cash sales (11%), recycling income (7%) and miscellaneous charges (less than 1%). All revenue types for fiscal year 2005 were materially consistent with fiscal year 2004, with the exception of corporate account sales, which decreased by 42%. This was due in large part to one contaminated soil project done in 2004 by a contractor for the State of Michigan at the old Delta Chemical site.
 - Operating expenses amounted to \$1,646,050 during 2005, representing a 28% increase from the 2004 level of \$1,281,730. The most significant variances comprising this increase are as follows:
 - Recognition of landfill closure and post-closure care costs recognized in the current year of \$457,000, compared to change in accounting estimate in the prior year of \$182,800 which was less due to a vertical expansion of the open landfill cells;
 - Depreciation expense increase by \$109,190 in the current year;
 - Leachate treatment expenses in the current year decreased \$45,653. Leachate expense is a function of rainfall and 2005 was a "dry" year and 2004 had more "typical" moisture levels;
 - Household Hazardous Waste expenses increased \$26,932 due in part to one-time expenses relating to "Michigan Clean Sweep" and "Household Hazardous Waste" programs;
 - Remaining expense categories were fairly consistent with the prior year.
- **Cash Flow** - Converting the operating income to a cash basis requires adjustments for non-cash transactions (principally depreciation and closure and post-closure care costs) which reveals that current year operations produced an increase in cash of \$1,226,546.

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements that present the financial position and results of operations for Delta Solid Waste Management Authority on a stand-alone basis.

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

One of the most important questions asked about the Authority's finances is, "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information in a way that helps answer this question. These two statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in them. The Authority's net assets – the difference between assets and liabilities – are one way to measure the financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the condition of the Authority's facilities and equipment, need to be considered to assess the overall health of the Authority.

FINANCIAL ADMINISTRATION

The Authority's net assets increased by \$283,845.

| | 2005 | 2004 | Change | Change |
|--|-------------------|---------------------|-------------------|----------------|
| Current and other assets | \$ 3,760,063 | \$ 2,905,648 | \$ 854,415 | 29.4% |
| Capital assets | 3,029,998 | 3,266,492 | (236,494) | -7.2% |
| Total assets | <u>6,790,061</u> | <u>6,172,140</u> | <u>617,921</u> | <u>10.0%</u> |
| Current liabilities: | | | | |
| Other liabilities | 3,542,870 | 3,023,794 | 519,076 | 17.2% |
| Current portion of long-term debt | 195,000 | 185,000 | 10,000 | 5.4% |
| Long-term debt | <u>2,920,000</u> | <u>3,115,000</u> | <u>(195,000)</u> | <u>-6.3%</u> |
| Total liabilities | <u>6,657,870</u> | <u>6,323,794</u> | <u>334,076</u> | <u>5.3%</u> |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | (85,002) | (33,508) | (51,494) | 153.7% |
| Restricted | 488,691 | 432,914 | 55,777 | 12.9% |
| Unrestricted | <u>(271,498)</u> | <u>(551,060)</u> | <u>279,562</u> | <u>-50.7%</u> |
| Total net assets | <u>\$ 132,191</u> | <u>\$ (151,654)</u> | <u>\$ 283,845</u> | <u>-187.2%</u> |

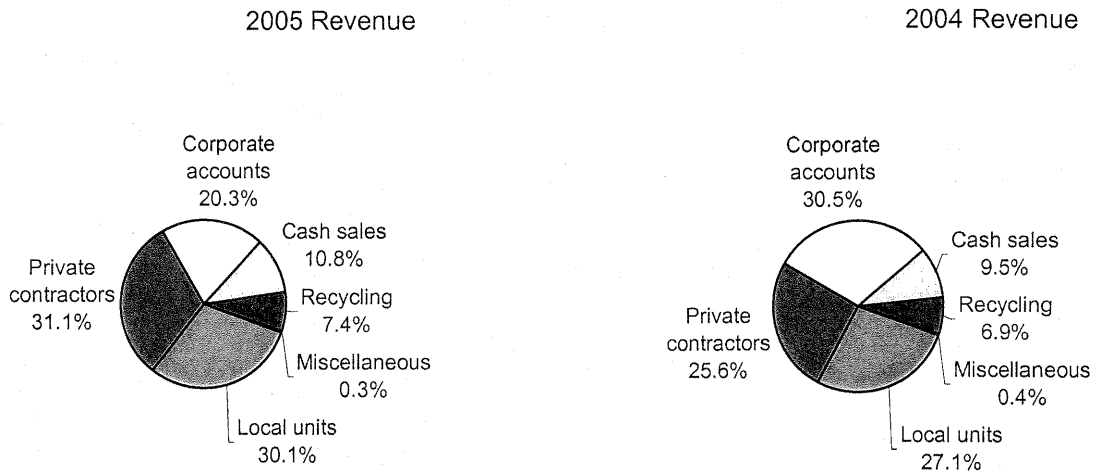
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Authority's net assets increased by \$283,845 during the year due to a combination of two primary factors as follows:

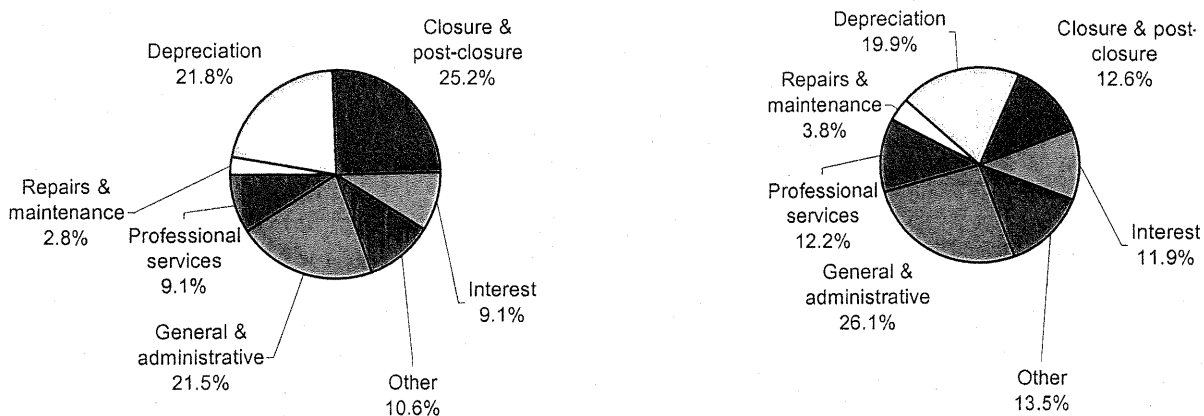
- The Authority paid down \$185,000 of long-term debt, bonds are our only debt.
- The working capital increased \$414,000 due primarily to an increase in cash generated from operations.

Business-Type Activities – Categorical Analysis

A comparison of revenue for 2005 and 2004 is presented in the pie chart below.



The Authority's expenses are consistent with the prior year as detailed below.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities – Functional Analysis

In the current year the Authority had net income of \$283,845. Even though the Authority experienced an increase in operating expenses of \$364,320 in 2005, we also experienced a 42% decrease in corporate account sales, which was primarily due to a contract with a private company for the disposal of contaminated soil in 2004. The Authority is required to recognize closure and post-closure costs associated with the closing and future monitoring of the landfill. Each year as the capacity of the landfill is reduced, a proportionate amount of the estimated closure and post-closure costs must be recognized in the financial statements of the Authority as an expense. 2005 expenses represent a more typical and consistent year of activity than 2004. In 2003 there was a vertical expansion of the landfill which changed the capacity and related calculations for closure and post-closure liabilities, which created a change in accounting estimate adjustment to reduce 2003 expenses by \$91,400. In 2004, closure and post-closure costs of \$182,800 were recognized as an expense in the financial statements. In 2005, closure and post-closure costs of \$457,000 were recognized as an expense in the financial statements.

Closure and post-closure costs have been estimated to be \$1,000,000 and \$3,570,000, respectively. These costs are based on engineering estimates and could change based upon changes in environmental laws, technology and inflation. Of the total \$4,570,000 closure and post-closure care costs, \$3,427,500 or 75% of the total costs have been recognized as of December 31, 2005.

CAPITAL ASSET AND DEBT ADMINISTRATION

- Capital Assets – At December 31, 2005, the Authority has \$3,029,998 invested in a broad range of capital assets including buildings, equipment, and landfill cell construction. The following table presents the changes in the Authority's capital assets compared to last year:

| | Balance 01/01/05 | Additions | Deductions | Balance 12/31/05 |
|----------------------------|---------------------|---------------------|-------------|---------------------|
| Business-type Activities: | | | | |
| Land | \$ 12,500 | \$ 64,174 | \$ - | \$ 76,674 |
| Buildings & improvements | 896,892 | - | - | 896,892 |
| Landfill cells/improvement | 5,935,532 | 9,487 | - | 5,945,019 |
| Machinery & equipment | 1,263,946 | 85,119 | - | 1,349,065 |
| Leasehold improvements | 65,180 | - | - | 65,180 |
| Accumulated depreciation | (4,907,558) | (395,274) | - | (5,302,832) |
| | <u>\$ 3,266,492</u> | <u>\$ (300,668)</u> | <u>\$ -</u> | <u>\$ 3,029,998</u> |

In Land above, the \$64,174 addition was land purchased to expand the capacity for future operations of the landfill.

The Machinery & Equipment addition was for a baler used in the recycling processes, and for a new truck and roll-off frame for the landfill operations.

The Landfill cells/improvement addition was for concrete laid for the parking area.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

- Debt Administration – At year-end, the Authority had \$3,115,000 in long-term debt related to landfill cell construction and \$3,427,500 in closure and post-closure care costs. The following table presents the changes in the enterprise's long-term debt compared to last year:

| | Balance 01/01/05 | Additions | Deletions | Balance 12/31/05 |
|------------------------------|---------------------|-------------------|---------------------|---------------------|
| Bonds | \$ 3,300,000 | \$ - | \$ (185,000) | \$ 3,115,000 |
| Closure & post-closure costs | 2,970,500 | 457,000 | - | 3,427,500 |
| Total long-term debt | <u>\$ 6,270,500</u> | <u>\$ 457,000</u> | <u>\$ (185,000)</u> | <u>\$ 6,542,500</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Delta Solid Waste Management Authority looks forward to another "Typical" year. The Authority does not see any significant swings in the waste stream for the coming year that could impact revenues adversely. The pricing for different types of waste received are reviewed periodically and adjusted to maintain income above expenses. This year we did raise the cost to take in tires to reflect our increase in costs to recycle them.

Over the last year, the Authority continued to replace equipment on schedule and we have several items planned again for this coming year. Almost every aspect of the landfill and recycling process is highly mechanized and to assure smooth and efficient operations we must continue our program of equipment replacement, rebuilding and upgrades.

The Authority has also made our first purchase of land for future landfill expansion. In about five years we must be prepared to close the old landfill footprint and have new cells constructed and ready to receive waste.

The "budget" that the Authority uses is a guideline. It is based upon the last three years of operations and any pertinent facts available at the time. Some revenue and expense items cannot be predicted. Therefore, the Authority chooses to adopt a budget that expects the higher side of expenses and the lower side of revenue. This year's budget estimates a 22.4% reduction in revenue and a 16.4% increase in expenses over 2005. This budget provides for sufficient revenue to maintain all operations, post closure savings and future capitalization expenses.

CONTACTING THE AUTHORITY'S MANAGEMENT

The financial report is designed to provide citizens, taxpayers, customers, regulatory agencies as well as creditors with a general overview of the Delta Solid Waste Management Authority financial activities. If you have any questions about this report or need additional financial information, contact the Authority's manager at P.O. Box 198, Escanaba, MI, 49829, or (906) 786-9056.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

STATEMENT OF NET ASSETS

December 31, 2005

ASSETS

Current Assets:

Cash and equivalents:

| | |
|-------------------------|----------------|
| Cash | \$ 1,044,739 |
| Certificates of deposit | 1,999,291 |
| Accounts receivable | <u>150,982</u> |

TOTAL CURRENT ASSETS 3,195,012

Non-Current Assets:

Restricted Assets - Cash:

| | |
|--|------------------|
| Perpetual care fund - DEQ | 488,691 |
| Capital Assets (Net of accumulated depreciation) | <u>3,029,998</u> |

TOTAL NON-CURRENT ASSETS 3,518,689

Other Assets:

| | |
|--------------------------------------|-----------------|
| Bond issuance and organization costs | 172,453 |
| Accumulated amortization | (120,350) |
| Bond discount | 42,750 |
| Accumulated amortization | <u>(18,493)</u> |

NET OTHER ASSETS 76,360

TOTAL ASSETS \$ 6,790,061

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

| | |
|---|---------------------|
| Current Liabilities: | |
| Accounts payable | \$ 55,868 |
| Accrued bond interest payable | 25,740 |
| Current portion of bonds payable | 195,000 |
| Current portion of accrued sick and vacation | 6,701 |
| Other current liabilities | <u>6,956</u> |
| TOTAL CURRENT LIABILITIES | <u>290,265</u> |
| Long-Term Liabilities (Net of Current Portion): | |
| Bonds Payable | 2,920,000 |
| Estimated liability for landfill closure and post-closure care costs | 3,427,500 |
| Accrued sick and vacation | <u>20,105</u> |
| NET LONG-TERM LIABILITIES | <u>6,367,605</u> |
| TOTAL LIABILITIES | <u>6,657,870</u> |
| Net Assets: | |
| Invested in capital assets, net of related debt | (85,002) |
| Restricted for: | |
| Closure and post-closure care | 488,691 |
| Unrestricted | <u>(271,498)</u> |
| TOTAL NET ASSETS | <u>132,191</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 6,790,061</u> |

See accompanying notes to financial statements.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NETS ASSETS

For the year ended December 31, 2005

| | |
|----------------------------------|---------------------|
| Operating Revenues | <u>\$ 2,060,648</u> |
| Operating Expenses: | |
| General and Administrative: | |
| Salaries and wages | 238,399 |
| Employee benefits | 47,186 |
| Payroll taxes | 3,378 |
| Pension expense | 20,835 |
| Workers compensation | 9,742 |
| Bank charges | 9,154 |
| Insurance | 14,050 |
| Printing and publishing | 2,648 |
| Postage | 303 |
| Telephone | 1,739 |
| Utilities | 23,822 |
| Travel and entertainment | 808 |
| Licenses and permits | 9,003 |
| Office supplies | 2,811 |
| Training | 445 |
| Shop supplies | 4,377 |
| TOTAL GENERAL AND ADMINISTRATIVE | <u>388,700</u> |
| Professional Services: | |
| Accounting and auditing | 12,060 |
| Engineering services | 2,416 |
| Other professional services | 3,045 |
| Management fees | 146,349 |
| TOTAL PROFESSIONAL SERVICES | <u>163,870</u> |
| Repairs and Maintenance: | |
| Building | 8,274 |
| Machinery | 24,709 |
| Office equipment | 3,522 |
| Small equipment | 494 |
| Grounds maintenance | 12,824 |
| TOTAL REPAIRS AND MAINTENANCE | <u>49,823</u> |
| Depreciation | <u>395,275</u> |

See accompanying notes to financial statements.

| | |
|--|------------|
| Amortization | 3,127 |
| Landfill closure and post-closure care costs | 457,000 |
| Other: | |
| Hazardous material program | 46,212 |
| Groundwater testing | 52,790 |
| Fuel | 34,614 |
| Leachate treatment | 38,362 |
| Tire recycling | 3,300 |
| Escanaba cleanup | 10,470 |
| Miscellaneous | 2,507 |
| TOTAL OTHER | 188,255 |
| TOTAL OPERATING EXPENSES | 1,646,050 |
| OPERATING INCOME (LOSS) | 414,598 |
| Non-operating Revenues and Expenses: | |
| Interest income | 33,413 |
| Interest expense | (164,166) |
| TOTAL NON-OPERATING REVENUES AND EXPENSES | (130,753) |
| NET INCOME (LOSS) | 283,845 |
| Retained earnings (deficit), beginning of year | (151,654) |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | \$ 132,191 |

See accompanying notes to financial statements.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended December 31, 2005

| | |
|--|----------------------------|
| Cash flows from operating activities: | |
| Cash received from charges for services | \$ 2,426,084 |
| Cash paid for salaries and wages | (302,714) |
| Cash paid for general expenses | (424,354) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>1,699,016</u> |
| Cash flows from capital and related financing activities: | |
| Purchase of fixed assets | (155,211) |
| Principal payments | (185,000) |
| Interest paid | (165,672) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(505,883)</u> |
| Cash flows from investing activities: | |
| Interest received | <u>33,413</u> |
| NET INCREASE (DECREASE) IN CASH | 1,226,546 |
| Cash, beginning of year | <u>2,306,175</u> |
| CASH, END OF YEAR | <u><u>\$ 3,532,721</u></u> |
| Reconciliation of operating loss to net cash provided (used) by operating activities: | |
| Operating income (loss) | <u>\$ 414,598</u> |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Depreciation and amortization | 398,402 |
| Landfill closure and post-closure costs | 457,000 |
| Changes in assets and liabilities: | |
| (Increase) decrease in accounts receivable | 365,436 |
| Increase (decrease) in accounts payable | 55,868 |
| Increase (decrease) in other current liabilities | 628 |
| Increase (decrease) in accrued sick and vacation | <u>7,084</u> |
| TOTAL ADJUSTMENTS | <u>1,284,418</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u><u>\$ 1,699,016</u></u> |

See accompanying notes to financial statements.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Reporting Entity - The Authority was incorporated in 1984, pursuant to Act 233, Public Acts of Michigan, 1955, by the County of Delta and local units of government within the county in order to provide a new landfill. Both Act 233 and its Articles of Incorporation authorize the Authority to issue bonds to finance and operate such a landfill. The Authority is similarly authorized to execute a long-term lease of the 80-acre site of the landfill, which is currently owned by the City of Escanaba and leased to the county for use as a landfill. During 1992 the Authority began operating a recycling center pursuant to Act 328, Public Acts of Michigan. A Clean Michigan Community Grant Contract funded the start up costs of the recycling center. The Authority as described herein has no taxing power.

The Authority is governed by a seven-person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities, and one member of the Delta County Board of Commissioners. The three members from the cities are selected by and from a body composed of two representatives from each city; and the member of the Delta County Board of Commissioners is chosen by County Commissioners after review of recommendation by the townships, villages and city representatives.

Basis of Accounting - Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied. The Authority's policies conform to generally accepted accounting principles as applicable to governmental proprietary funds and as such the funds are accounted for using the accrual basis method of accounting. Under the accrual basis method of accounting revenue is recognized when earned, and expenses when incurred. The Authority applies all GASB pronouncements and FASB Statement and Interpretations, APB Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Cash - For reporting purposes in the Statement of Cash Flows, cash and cash equivalents include cash on hand, demand deposits and short-term investments with maturities of three months or less. This includes restricted cash.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (continued)

Restricted Assets - Restricted cash includes a perpetual care fund with a balance of \$488,691, which the Michigan Department of Environmental Quality mandates as part of its licensure and financial assurance requirements.

Receivables - Receivables are reported at their gross value and are reduced by the direct write-off method when amounts are deemed to be uncollectible.

Fixed Assets - Fixed assets are recorded at cost. Depreciation is charged as an expense against income from operations. Depreciation is computed over the estimated useful lives of the assets on the straight-line method. Accumulated depreciation is adjusted for landfill cells based on the capacity used/available at year-end. The following are the estimated useful lives of the assets:

| | |
|----------------------------------|---------------|
| Buildings | 10 - 19 years |
| Landfill cells/land improvements | 5 - 20 years |
| Furniture | 10 years |
| Vehicles | 7 years |
| Machinery and equipment | 7 - 10 years |
| Leasehold improvements | 19 years |

Bond Issuance Costs - Bond issuance costs are capitalized and amortized over twenty years.

Bond Discount - Discount on bonds issued is amortized to interest expense using the effective interest method.

Organization Costs - Organization costs are capitalized and amortized over nine years.

Operating Revenues and Expenses - Operating revenues and expenses for the Authority are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE B - CASH DEPOSITS

Cash deposits are recorded at cost. All cash deposits are held in federally insured banks located in the State of Michigan. During the past year, cash balances deposited have exceeded the maximum federally insured deposit levels. Custodial credit risk is the risk that in the event of a bank failure the Authority's deposits may not be returned. At December 31, 2005 the carrying amount of the Authority's cash deposits was \$3,532,403 and the bank balance was \$ 3,536,450. Of the bank balance, \$600,000 was covered by federal deposit insurance and \$ 2,936,450 was uninsured and uncollateralized. The Authority does not have deposit or investment policies relating to custodial credit risk, however, in the opinion of management, these deposits that exceed federally insured limits are subject to minimal risk.

NOTE C - PROPERTY AND EQUIPMENT

The following is a summary of changes in property and equipment:

| | Balance 1/1/2005 | Additions | Deletions | Balance 12/31/2005 |
|---|---------------------|--------------|-----------|-----------------------|
| Capital Assets Not Subject to Depreciation: | | | | |
| Land | \$ 12,500 | \$ 64,174 | \$ - | \$ 76,674 |
| Capital Assets Subject to Depreciation: | | | | |
| Buildings and improvements | 896,892 | - | - | 896,892 |
| Landfill cells/land improvements | 5,935,532 | 9,487 | - | 5,945,019 |
| Furniture | 2,803 | - | - | 2,803 |
| Vehicles | 1,134 | - | - | 1,134 |
| Machinery and equipment | 1,260,009 | 85,119 | - | 1,345,128 |
| Leasehold improvements | 65,180 | - | - | 65,180 |
| | 8,174,050 | 158,780 | - | 8,332,830 |
| Less accumulated depreciation | (4,907,558) | (395,274) | - | (5,302,832) |
| NET PROPERTY AND EQUIPMENT | \$ 3,266,492 | \$ (236,494) | \$ - | \$ 3,029,998 |

In 1997, the Authority entered into a capital lease for the purchase of a piece of equipment for a cost of \$355,681. This lease was capitalized under machinery and equipment and had accumulated depreciation of \$355,681 as of December 31, 2005.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE D - RETIREMENT PLAN

In accordance with Section 401(A) of the Internal Revenue Code, the Authority makes available to its employees a qualified defined contribution retirement plan in which DSWMA contributes 8% of the employee's annual base salary rate to the plan, and makes a matching contribution of 3% to an employee's account for each 3% of employee contribution. This plan is offered to all regular full-time employees, regular part-time employees, and part time employees who work a minimum of 1,000 hours per year. Employee salary deferrals and DSWMA contributions are immediately 100% vested. Contribution requirements are established by and may be amended at the discretion of the Authority's Board of Directors. As of December 31, 2005, the Authority had five employees participating in the plan and made contributions totaling \$20,835 and employee contributions of \$18,940.

NOTE E- LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2005:

| | 1997 General Obligation Limited Tax Bonds | Estimated Liability for Landfill Closure and Post-Closure Care Costs | Total |
|---------------------------|---|---|---------------------|
| Debt Outstanding 01/01/05 | \$ 3,300,000 | \$ 2,970,500 | \$ 6,270,500 |
| Additions | - | 457,000 | 457,000 |
| Reductions | (185,000) | - | (185,000) |
| Debt Outstanding 12/31/05 | <u>\$ 3,115,000</u> | <u>\$ 3,427,500</u> | <u>\$ 6,542,500</u> |

The 1997 General Obligation Limited Tax bonds bear interest at rates ranging from 4.75 to 5.0%, with annual maturities ranging from \$165,000 to \$300,000 through November 1, 2017. The bonds are secured by payments to be made to the Authority by Delta County to pay principal and interest, if necessary, pursuant to a contractual agreement between the Authority and Delta County. Delta County is authorized under Public Act 233 to pledge its limited tax full faith and credit for payment of the bonds.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE E- LONG-TERM DEBT (continued)

The following summarizes 1997 General Obligation Limited Tax Bond debt service requirements for principal and interest due within the next five years:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> |
|-------------|---------------------|---------------------|
| 2006 | \$ 195,000 | \$ 154,443 |
| 2007 | 205,000 | 144,936 |
| 2008 | 220,000 | 134,942 |
| 2009 | 230,000 | 124,218 |
| 2010 | 245,000 | 113,005 |
| 2011-2015 | 1,420,000 | 368,350 |
| 2016-2017 | 600,000 | 45,000 |
| TOTALS | <u>\$ 3,115,000</u> | <u>\$ 1,084,894</u> |

NOTE F - LETTERS OF CREDIT

At December 31, 2005 the Authority had the flowing letters of credit with State Bank of Escanaba and Bay Bank:

| <u>Date Issued</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Expiration</u> |
|------------------------|---------------|--------------------------|-------------------|
| 1/2/1997 | \$ 190,000 | 9.50% | 2/28/2006 |
| 1/2/1997 | 82,800 | 9.50% | 2/28/2006 |
| 5/12/1997 | 152,000 | 9.50% | 1/28/2006 |
| 5/12/1997 | 60,000 | 9.50% | 5/12/2006 |

There were no outstanding balances on any of these letters of credit as of December 31, 2005.

NOTE G - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

State and federal laws require that the Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to current operating expenses related to current activities of the landfill, an expense provision and related liability

DELTA SOLID WASTE MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE G - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS (continued)

are being recognized based on estimated future closure and post-closure care costs that will be incurred after the date the landfill no longer accepts waste.

The recognition of the annual landfill closure and post-closure care costs is based on the amount of landfill used during the year.

The estimated liability for landfill closure and post-closure care costs has a balance of \$3,427,500 as of December 31, 2005. This amount is based on 75% filled usage of the landfill for post-closure care costs, based upon the ratio of filled cells to total filled capacity, including the capacity of cell four constructed in 2002, and the vertical expansion of cell three in 2003.

It is estimated that an additional \$1,142,500 will be recognized as closure and post-closure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (the year 2011), which includes closure costs of the reconstructed portion of the landfill. The estimated total current cost of the landfill closure and post-closure care (\$4,570,000) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2005. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Cash deposits of \$2,487,982 were available at December 31, 2005 to finance closure and post-closure care. Letters of credit amounting to \$484,800 were also available at December 31, 2005. Possible additional charges to future landfill users may also be used to finance closure and post-closure costs. As of December 31, 2005, the estimated remaining useful life of the landfill is five-and-one-half years.

NOTE H - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority carries commercial insurance for these risks of loss. At December 31, 2005, the Authority had no outstanding claims which exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA
Sarah Peloza, CPA

REPORT TO MANAGEMENT

To the Board of Directors
Delta Solid Waste Management Authority

We have audited the general purpose financial statements of the Delta Solid Waste Management Authority for the year ended December 31, 2005, and have issued our reports thereon dated May 1, 2006. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Delta Solid Waste Management Authority. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Delta Solid Waste Management Authority are described in Note A of the financial statements.

No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transaction entered into by the Delta Solid Waste Management Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgements and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and expertise about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates. The most significant estimates affecting the Authority's financial statements is the landfill capacity available, depreciable lives of capital assets and the closure and post-closure care costs.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

Disagreement with Management

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Delta Solid Waste Management Authority or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Delta Solid Waste Management Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

In planning and performing our audit of the financial statements of the Delta Solid Waste Management Authority for the year ended December 31, 2005, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. This letter does not affect our report dated May 1, 2006, on the financial statements of the Delta Solid Waste Management Authority.

This information is intended solely for the Authority's Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.L.C.

Certified Public Accountants

May 1, 2006

DELTA SOLID WASTE MANAGEMENT AUTHORITY

COMMENTS AND RECOMMENDATIONS

December 31, 2005

ACCOUNTS RECEIVABLE:

Comment:

We noted that Don is the only employee involved in the functions surrounding accounts receivable. He is responsible for receipting the checks received on account, recording them against the proper customer accounts, and for depositing the checks to the bank.

We also noted that the balance listed on the "Accounts Aging Report" does not agree with the balance recorded on the trial balance.

Recommendation:

We recommend that all cash duties be segregated between Don and Cindy. Such solutions could be a daily receipt log maintained by Cindy prior to submitting the checks to Don for posting to customer accounts. This log could then be reconciled against the daily deposits and to the activity posted to customer accounts.

We further recommend the "Accounts Aging Report" be reconciled to the total posted to the trial balance (or that is carried on the monthly financial statements) to ensure proper posting of accounts.

DISBURSEMENT APPROVAL:

Comment:

We noted in the board minutes that bills are approved in total, however, the listing of checks to be approved does not provide check numbers with which the board could identify gaps in sequencing.

Recommendation:

We recommend that the listing of bills to be approved at the board meetings be sequentially numbered so that the board can easily recognize any gaps in sequencing and thus strengthen controls over cash.

BANK DEPOSITS:

Comment:

We noted a \$28,000 calculation error on a deposit slip submitted to the bank for payments received on account.

Recommendation:

As with the above "Accounts Receivable" comment, we recommend that posting duties and depositing duties be segregated to help strengthen controls over cash. The amount received and posted to the aging accounts receivable should be reconciled to the bank deposit to ensure completeness and to reveal any errors made in posting or calculating of the deposit slip.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

COMMENTS AND RECOMMENDATIONS

December 31, 2005

REMAINING LIFE OF LANDFILL:

Comment:

According to estimates provided through engineering reports, the remaining capacity available for the landfill is approximately 386,000 cubic yards (per study dated November 10, 2005). The landfill accepts, on average, approximately 70,000 cubic yards of waste annually. Considering this calculation, the landfill estimated remaining life is approximately 5.5 years.

Recommendation:

Based upon the current estimates the landfill is expected to be at capacity in 2011. The current amortization of the bonds requires the Authority to make principal and interest payments through the year 2017. It is our understanding that the Authority is currently considering an expansion of the landfill. Because the payments on the bonds extend beyond the useful life of the existing landfill the Authority should either aggressively seek expansion of the landfill to ensure there is a revenue source to payoff these bonds beyond 2011, or the Authority should ensure they are accumulating enough resources to satisfy the required bond payments beyond 2011 and to satisfy the closure and postclosure cost associated with the existing landfill.